

**Office of Inspector General**

---

**LEGAL SERVICES CORPORATION**

**Semiannual Report to the Congress**

**April 1, 1997 - September 30, 1997**

September 30, 1997

**TO THE BOARD OF DIRECTORS OF THE LEGAL SERVICES CORPORATION  
AND  
THE UNITED STATES CONGRESS**

This Semiannual Report (SAR) on the activities of the Office of Inspector General (OIG) of the Legal Services Corporation (LSC) covers the six-month period from April 1, 1997 through September 30, 1997. Section 5 of the Inspector General Act of 1978 requires that the Board of Directors, as the designated Federal entity head, transmit this report to the appropriate committees of Congress within 30 days, together with its report commenting on the contents of the SAR.

Edouard Quatrevaux  
Inspector General

**TABLE OF CONTENTS**

**EXECUTIVE SUMMARY. .... 1**

**INTRODUCTION ..... 2**

**AUDITS ..... 3**

**IMPLEMENTATION OF COMPLIANCE MONITORING ..... 3**

**Oversight Report Issued ..... 3**

**Grantee Compliance Audit Reports Issued ..... 3**

**Audit Information Management Systems (AIMS) ..... 4**

**OTHER AUDIT AND INSPECTION ACTIVITIES ..... 4**

**Status of Findings and Recommendations ..... 4**

**Peer Review ..... 4**

**Corporate Financial Statement Audit ..... 4**

**Inspection of Alternative Work Arrangements ..... 4**

**Statistical Summary of Audit Activity  
        for the period ending September 30, 1997 ..... 5**

**INVESTIGATIVE ACTIVITIES ..... 6**

**Statistical Summary of Investigative Activity  
    for the period ending September 30, 1997 ..... 7**

**LEGISLATIVE AND REGULATORY REVIEW ..... 8**

**PROGRAM ASSESSMENT ..... 9**

**Strategic Plan ..... 9**

**TABLE I ..... 10**

**TABLE II ..... 11**

**TABLE III ..... 12**

---

## EXECUTIVE SUMMARY

---

More than 200 grantee annual audits were conducted by local auditors in accordance with our Audit Guide and Compliance Supplement. The independent public accountants reported 3 findings of noncompliance with restrictions on the provision of legal services. We issued an oversight report summarizing the audits. (Page 3)

We also continued special grantee compliance audits and will issue a consolidated report in the next reporting period. (Page 3)

We began the annual financial audit of the Corporation, issued a draft inspection report on flexible work arrangements, and issued a final peer review report of the Equal Employment Opportunity Commission Office of Inspector General. (Page 4)

Two prosecutive referrals were declined by U.S. Attorneys and one prosecution was dismissed by a court. (Page 6)

The OIG was refused access to a litigation report prepared by the LSC General Counsel on the basis of attorney-client privilege. (Page 8)

We issued a draft Strategic Plan that would focus resources on assessment of grantee compliance with restrictions, and on program efficiency and effectiveness. (Page 9)

---

# INTRODUCTION

---

## **Corporate Structure**

The Board of Directors of the Corporation is composed of 11 members appointed by the President of the United States with the advice and consent of the Senate. The Board sets general policy and oversees the management of the Corporation. The Inspector General is appointed by and reports directly to the Board in its capacity as head of the entity. The Board also appoints the President of the Corporation, who serves as the principal management official of the Corporation.

## **Grant-Making Activities**

The Corporation is authorized by Congress to make grants and contracts to support the provision of civil legal assistance to clients who meet eligibility requirements. The Corporation makes grants to approximately 270 entities that in turn provide legal assistance to indigent persons throughout the United States, Puerto Rico, the U.S. Virgin Islands, and Micronesia.

## **Office of Inspector General**

The Office of Inspector General (OIG) was established as an independent office pursuant to the 1988 amendments to the IG Act. Its statutory missions are to prevent and detect fraud and abuse, and to promote efficiency and effectiveness in the activities administered or funded by LSC. The OIG accomplishes its missions by conducting audits, investigations, inspections and program assessments, and by making recommendations for change to legislation and regulations.

## **Certification of Independence**

Inspector General operations in this period were free of personal or organizational impairment.

---

# AUDITS

---

## **IMPLEMENTATION OF COMPLIANCE MONITORING**

LSC's fiscal year 1996 appropriations act imposed new restrictions and prohibitions on the types of representation that may be provided by LSC grantees. It also required that routine on-site monitoring of grantee compliance with laws and regulations be accomplished through annual audits conducted by independent public accountants (IPAs) in accordance with guidance established by the Office of Inspector General. Authority was also given to the OIG to conduct additional on-site monitoring of LSC grantees in connection with assessing compliance.

The audit requirements of the fiscal year 1996 appropriation became effective with audits of fiscal years beginning January 1, 1996, and were retained in the fiscal year 1997 appropriation. The audit reports of the first round of 216 audits conducted under the requirements of the appropriations act were due to the OIG by April 30, 1997.

### **Oversight Report Issued**

The OIG issued an oversight report, "Results of Recipient Audit Reports for the Year Ended December 31, 1996," dated July 1997, which presents the results of the first cycle of audits performed in accordance with the 1996 appropriations statute (PL 104-134). Only 3 findings in the 216 audits reported grantee noncompliance with prohibitions and restrictions on the provision of legal services, and two of those findings related to delays in withdrawing from prior on-going cases.

### **Grantee Compliance Audit Reports Issued**

Two different types of special compliance audits of 12 grantees were continued. The first audit was designed to determine whether selected grantees had complied with key restrictions and prohibitions contained in the appropriations act. A second compliance audit sought to determine whether grantees had provided financial support for restricted or prohibited activities within their own or alternative organizations. The OIG issued 12 final reports covering 10 grantees, which included 12 recommendations addressed to grantees and 4 addressed to LSC management.

The results of these audits and those of the two remaining grantees will be presented in a consolidated report in the next reporting period.

## **Audit Information Management System (AIMS)**

AIMS was developed to support the assessment, review of findings, and follow-up of recommendations for the annual grantee compliance audits. AIMS receives grantee audit report summaries via the Internet, downloads the information into a database, and prioritizes the IPA audit reports for OIG auditors, who evaluate report contents and refer findings to LSC management for follow-up. AIMS also tracks the status of these referred findings until they are resolved and corrective actions are complete. These capabilities combine to reduce greatly the administrative tasks associated with the review of hundreds of audit reports.

More important, AIMS provided knowledge of the total findings reported by the auditors within days instead of months. AIMS worked exactly as designed in its first full workload test, and demonstrated that information technology enables organizations to achieve better results with fewer resources.

## **OTHER AUDIT AND INSPECTION ACTIVITIES**

### **Status of Findings and Recommendations**

There were no open recommendations from prior reporting periods.

### **Peer Review**

*Government Auditing Standards* require that audit organizations be reviewed by an external entity every three years. The Executive Council on Integrity and Efficiency assigns member OIGs to conduct peer reviews as required. We issued a final peer review report of the Equal Employment Opportunity Commission Office of Inspector General.

### **Corporate Financial Statement Audit**

The annual audit of the Corporation's financial statements for FY 1997 was begun and will be conducted in accordance with government auditing standards by an independent public accounting firm under contract to the OIG. The results of this audit will be reported next period.

### **Inspection of Alternative Work Arrangements**

We conducted an inspection of Alternative Work Arrangements, FlexiTime, and FlexiPlace and issued a draft report. The final inspection report will be issued in the next period.

---

**STATISTICAL SUMMARY OF AUDIT ACTIVITY  
FOR THE PERIOD ENDING SEPTEMBER 30, 1997**

---

**AUDIT REPORTS AND OTHER AUDIT-RELATED PROJECTS**

Open at beginning of reporting period	16
Opened during reporting period	2
Closed during reporting period	<13>
Open at the end of reporting period	5

**RECOMMENDATIONS TO LSC GRANTEES**

Pending beginning of reporting period	0
Reported during this period directed to LSC grantees	12
Closed during reporting period	0
Pending at end of reporting period	12

**RECOMMENDATIONS TO LSC MANAGEMENT**

Pending beginning of reporting period	0
Reported during this period directed to LSC Management	4
Closed during reporting period	0
Pending at end of reporting period	4

**IPA SERVICE REVIEWS (ISRs)**

ISRs Performed	0
IPA Services Acceptable (met standards)	0
IPAs Referred for Disciplinary Action (substandard)	0
ISRs Pending	0
ISRs Closed	0
ISRs remaining at end of period	0

---

## INVESTIGATIVE ACTIVITIES

---

During this period, 24 cases were opened and 46 were closed. The majority of the cases resulted from information on losses (thefts and burglaries) provided by grantees in accordance with grant assurances. The rest resulted from information obtained from other sources, including referrals from LSC offices and calls or letters to the OIG Hotline. The Hotline was contacted 73 times.

A referral for prosecution which was requested by a United States Attorney's Office will be handled by the Pre-Trial Diversion program of that office instead. A case, which had been referred to a United States Attorney's Office during the preceding period for civil prosecution, was declined. Another previously referred case, which had resulted in the issuance of a bench warrant for failure to appear in court, was dismissed for lack of prosecution.

An OIG investigation into the alleged theft of approximately \$25,000 by a former Executive Director and attorney of a grantee in California, which previously had been declined for prosecution, remains under review by the State Bar Association of Colorado for ethical violations and possible sanctions.

### **Investigative Recommendation**

One investigative recommendation remains open from a prior reporting period. The recommendation followed the third incident of theft of computer and related equipment at LSC in less than two years. The recommendation that LSC employees wear photo identification and that LSC guests wear Visitor Pass identification is under active consideration by LSC management.

---

**STATISTICAL SUMMARY OF INVESTIGATIVE ACTIVITY FOR THE  
PERIOD ENDING SEPTEMBER 30, 1997**

---

**INVESTIGATIVE CASELOAD**

Open at beginning of reporting period	44	
Opened during reporting period	24	
Closed during reporting period	<46>	
Open at end of reporting period		22

**CATEGORIES OF INVESTIGATIONS OPENED**

Internal (Relating to LSC)	0
External (Relating to LSC Grantee)	24

**RECOMMENDATIONS TO MANAGEMENT FOR CORRECTIVE ACTION**

Reported during this reporting period	0
Pending from previous period	1
Closed during this period	0
Pending at end of reporting period	1

**PROSECUTIVE ACTIVITIES**

Referred for prosecution this reporting period	1
Prosecution Declined	2
Pending Action	1
Convictions	0

---

## LEGISLATIVE AND REGULATORY REVIEW

---

As reported in the last two Semiannual Reports, LSC has been engaged in a regulatory process designed to develop and revise regulations to implement changes pursuant to the fiscal year 1996 and 1997 appropriations acts. LSC has continued these efforts in the current reporting period, but the volume of regulatory activity had decreased because of the accomplishments of the last 18 months.

The OIG has continued to comment on the regulations to LSC management and Board of Directors, providing suggestions aimed at ensuring that the regulations implement the intent of Congress and facilitate monitoring of compliance of LSC recipients. The OIG also has provided comments on the interpretive guidance which LSC management provided to grantees.

### **Access to Document Refused and Legislative Clarification Requested**

On May 15, 1997, as part of general oversight of LSC activities, the OIG requested a copy of the litigation report(s) prepared by the Corporation's General Counsel and submitted to the Board of Directors for its January, March, and May meetings. Declining to provide the requested reports, the General Counsel referred the Inspector General to the Chairman of the Board, and the IG promptly informed the Chairman of the refusal of access. *See*, IG Act of 1988, §§ 5(a)(5) and 6(b)(2). In spite of some efforts at compromise, the requested documents have not been provided.

The stated grounds for this refusal of access is LSC's long-standing belief that its attorney-client privilege permits the denial of access by its Inspector General to certain documents, as determined by LSC's Board of Directors. The Inspector General disagrees with the Corporation's legal analysis and believes that because the Inspectors General are entitled by statute to all documents and information within their agencies, the question of privilege which bars outsider access to information never arises. The issue of attorney-client and other common law privileges has arisen previously at LSC, however, and reportedly has created OIG access problems at other agencies as well.

We recommend that Congress eliminate this problem by amending the Inspector General Act to make clear that common law privileges cannot be used by an agency to deny its Inspector General access to documents.

---

# PROGRAM ASSESSMENT

---

## **Strategic Plan**

We issued a draft Strategic Plan for fiscal years 1998-2003 for comment by the Corporation's management and Board of Directors. At the request of the Board, we held our draft from further distribution so that it could be combined with management's plan into a single document. The final plan will be issued in late 1997.

The draft plan is based on the OIG assessment of risks in the federal legal services program. In general, the plan shifts resources from the fraud component of our mission to assessment of potential noncompliance with restrictions and of program efficiency and effectiveness.

**TABLE I**

**Audit Reports Issued with Questioned Costs  
for the Period Ending September 30, 1997**

	NUMBER REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0	\$0
B. Reports issued during the reporting period	0	\$0	\$0
Subtotals (A + B)	0	\$0	\$0
<b>LESS:</b>			
C. For which a management decision was made during the reporting period:	0	\$0	\$0
(I) dollar value of recommendations that were agreed to by management	0	\$0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0	\$0

**TABLE II**

**Audit Reports Issued with Funds to be Put to Better Use  
for the Period Ending September 30, 1997**

	NUMBER REPORTS	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	0	\$0
B. Reports issued during the reporting period	0	\$0
Subtotals (A + B)	0	\$0
<b>LESS:</b>		
C. For which a management decision was made during the reporting period:	0	\$0
(I) dollar value of recommendations that were agreed to by management	0	\$0
(ii) dollar value of recommendations that were not agreed to by management	0	\$0
D. For which no management decision had been made by the end of the reporting period	0	\$0
Reports for which no management decision had been made within six months of issuance	0	\$0

**TABLE III**

Index to Reporting Requirements  
of the Inspector General

<b>IG Act*** Reference</b>	<b>REPORTING REQUIREMENT</b>	<b>PAGE</b>
Section 4(a)(2)	Review of legislation and regulations	9
Section 5(a)(1)	Significant problems, abuses, and deficiencies	None
Section 5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	None
Section 5(a)(3)	Prior significant recommendations on which corrective action has not been completed	None
Section 5(a)(4)	Matters referred to prosecutive authorities	7
Section 5(a)(5)	Summary of instances where information was refused	8
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and funds to be put to better use	3
Section 5(a)(7)	Summary of each particularly significant report	3
Section 5(a)(8)	Statistical table showing number of audit reports and dollar value of questioned costs	11
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	12
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	3
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which the Inspector General disagrees	None

\*\*\*Refers to sections in the Inspector General Act of 1978, as amended.